

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 /097 W

----- 101116

R 271400Z JUN 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 0052

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 5266

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: FINANCE MINISTER SIMONSEN ON THE ECONOMIC SITUATION
AND OUTLOOK

1. SUMMARY: DURING WEEKEND PRESS INTERVIEWS,.
FINANCE MINISTER SIMONSEN, (A) NOTED THAT A GROWTH
RATE OF 6 PERCENT THIS YEAR WOULD BE A REASONABLE PER-
FORMANCE; (B) COMMENTING ON RECENT PRESS SPECIALATION,
CATEGORICALLY AND VEHEMENTLY DENIED REPORTS THAT
MONETARY AUTHORITIES ARE PLANNING TO INTRODUCE A
SPECIAL TOURIST EXCHANGE RATE; (C) INDICATED THAT
INFLATION IN JUNE WILL BE IN LINE WITH EXPECTATIONS
AND THAT THE REAL CONCERN WITH THE FUTURE TREND OF
INFLATION IS UNEXPECTED DEVELOPMENTS; AND (D)
ANNOUNCED THAT MONETARY AUTHORITIES NOW USE A
MORE COMPREHENSIVE DEFINITION OF MONEY SUPPLY (M2)
IN DETERMINING THE COURSE OF MONETARY POLICY AND
THAT MONEY AND CREDIT CONDITIONS SHOULD BE
EASIER DURING THE SECOND HALF OF THE YEAR. END
SUMMARY.

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2. IN SEPARATE INTERVIEWS OVER THE WEEKEND (JUNE 21-

22) WITH O ESTADO DE SAO PAULO AND JORNAL DO BRASIL, FINANCE MINISTER SIMONSEN MADE THE FOLLOWING POINTS ON THE ECONOMIC SITUATION AND OUTLOOK:

A. GROWTH RATE: SIMONSEN SAID ANY ESTIMATE MADE NOW OF THE GROWTH RATE THIS YEAR WOULD NOT HAVE A SOLID STATISTICAL BASE. HE BELIEVED, HOWEVER, THAT A RATE OF 6 PERCENT WOULD BE A REASONABLE PERFORMANCE; IT WOULD BE NEITHER BAD NOR GOOD IN ITSELF, HE THOUGHT, BUT COMPARED TO OTHER COUNTRIES IT WOULD BE AN EXCELLENT OUTCOME.

B. MULTIPLE EXCHANGE RATES: THE MINISTER CATEGORICALLY AND VEHEMENTLY DENIED RECENT NEWSPAPER REPORTS THAT THE AUTHORITIES WERE CONSIDERING INTRODUCING A SPECIAL TOURIST EXCHANGE RATE, RETURNING TO THE OLD SYSTEMS OF MULTIPLE EXCHANGE RATES. AS IT HAD BEEN DONE IN A STATEMENT ISSUED A FEW DAYS AGO BY THE FINANCE MINISTRY. SIMONSEN STRESSED ONCE AGAIN THAT THE AUTHORITIES HAVE NO SUCH SCHEME IN MIND. HE DISMISSED THE PROPOSAL AS IMPRACTICAL, SAYING THAT IT WOULD INFLICT IRREPARABLE DAMAGE TO THE SYSTEM OF MINIDEVALUATIONS WHICH HAS BEEN WORKING SO WELL. SUCH A MOVE WOULD ADVERSELY EFFECT CAPITAL INFLOWS BY INCREASING THE INTEREST RATES ON FOREIGN LOANS. THESE INTEREST RATES HE SAID. TAKE INTO ACCOUNT THE DEVALUATION OF THE CRUZEIRO, THE INTEREST RATE PAID TO THE FOREIGN BANK, THE SPREAD (USUALLY OVER THAT LONDON INTERBANK RATE) BANK COMMISSIONS AND TAXES. THE TOTAL OF THESE ELEMENTS MUST GIVE AN INTEREST RATE LEVEL WHICH APPROXIMATES THE INTEREST RATE ON DOMESTIC LOANS. WOULD THE RATES OF FOREIGN LOANS BE PUSHED ABOVE THOSE ON DOMESTIC CREDITS (BECAUSE OF THE EXISTENCE OF A LARGE DEVALUATION FACTOR), BORROWERS WOULD FIND IT DISADVANTAGEOUS TO BORROW ABROAD, THUS REDUCING THE LEVEL OF CAPITAL INFLOW.

C. INFLATION: SIMONSEN NOTED THAT THE SPECIAL INFLATIONARY FACTORS OPERATING LAST YEAR HAVE BEEN DISSIPATED, SUCH AS THE HIGH PRICE OF RAW MATERIALS AND SPECULATIVE STOCKPILING. DURING JUNE, THE INFLATION RATE WILL BE AFFECTED BY A CARRY-OVER OF ABOUT 0.8 PERCENT RESULTING FROM ADMINISTRATIVE UNCLASSIFIED

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PRICE ADJUSTMENT MADE IN MAY. IN ANY CASE, HE FORESEES INFLATION IN JUNE TO BE WITHIN OFFICIAL EXPECTATIONS. HE SAID WHAT CONCERNS THE AUTHORITIES WITH RESPECT TO INFLATION IS UNEXPECTED DEVELOPMENTS (WHICH HE DID NOT ELABORATE BUT A POSSIBLE INCREASE IN OIL PRICES THIS FALL MUST SURELY BE ONE OF THEM).

D. MONEY SUPPLY: THE MINISTER ANNOUNCED THAT THE MONETARY AUTHORITIES ARE NOW USING THE

MORE COMPREHENSIVE DEFINITION OF MONEY SUPPLY
(M2) IN DETERMINING THE COURSE OF MONETARY POLICY.
AS THIS SWITCH WAS NOT PREVIOUSLY MADE PUBLIC.
THERE HAS BEEN SOME CONFUSION IN THE
PRESS RECENTLY OVER THE TREND OF MONETARY INDICATORS
SINCE MOST COMMENTATORS CONTINUED TO FOCUS ON THE
PREVIOUS DEFINITIONS (M1). UNDER THE NEW DEFINITION.,
SIMONSEN SAID THE MONEY SUPPLY GREW BY 10 PERCENT
BETWEEN DECEMBER AND MAY. UNDER THE FORMER (MORE
RESTRICTED) DEFINITION, IT ROSE ONLY BY 2 PERCENT.
HE ALSO PREDICTED THAT THE CREDIT SITUATION SHOULD
BE EASIER DURING THE SECOND HALD THAN IT HAS BEEN
DURING THE FIRST SIX MONTHS OF THE YEAR . HE INDICATED THAT THE
FACT THE GROWTH OF MONEY SO FAR THIS YEAR HAS BEEN
BELOW THE MONETARY BUDGET TARGETS IS ATTRIBUTABLE
IN PART TO THE LOSS OF OFFICIAL RESERVES OVER AND
ABOVE PROJECTIONS. WITH RESPECT TO THE MONETARY
BUDGET, SIMONSEN STATED THAT THE AUTHORITIES BIEW
THE LIMITS SET THEREIN AS TARGETS AND THAT THEY WILL
NOT INFLATE THE MONEY SUPPLY JUST FOR THE SAKE OF
MEETING THESE GOALS. (THE MONETARY BUDGET
REPORTEDLY PROJECTS A GROWTH OF THE MONEY SUPPLY
IN 1975 -- PRESUMABLY ON THE BASIS OF M1 -- OF 30 PERCENT.
CRIMMINS

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